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FM AMCONSUL SHENYANG
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RUEKJCS/DIA WASHDC 0121
RHEHAAA/NSC WASHDC
RUCGEVC/JOINT STAFF WASHDC 0087
RUEKJCS/SECDEF WASHDC 0136
RUCNDT/USMISSION USUN NEW YORK 0036

C O N F I D E N T I A L SECTION 01 OF 03 SHENYANG 000189

SIPDIS

DEPARTMENT FOR EAP/K, INR, EAP/CM, IO

E.O. 12958: DECL: TEN YEARS AFTER KOREAN UNIFICATION
TAGS: [PREL](#) [PGOV](#) [PINR](#) [ETRD](#) [KN](#) [KS](#) [CH](#)
SUBJECT: PRC-DPRK: CHINA'S COMPLIANCE WITH UNSCR 1718
LUXURY-GOODS PROVISIONS

REF: A. (A) 07 SHENYANG 108
[1](#)B. (B) 07 SHENYANG 69
[1](#)C. (C) 06 SHENYANG 1201
[1](#)D. (D) SHENYANG 109
[1](#)E. (E) SHENYANG 67
[1](#)F. (F) SHENYANG 185

Classified By: ACTING CONSUL GENERAL BRIAN M. GIBEL.
REASONS: 1.4(b)/(d).

[1](#)1. (C) SUMMARY: Two years on, PRC compliance with the spirit of UN Security Council Resolution 1718's luxury-goods provisions appears limited at best. Dandong and other border officials tell us privately that while they are implementing military-related provisions of UNSCR 1718, they are not enforcing a luxury-goods ban on North Korea because Beijing has not defined--or has chosen not to define--"luxury goods." U.S.-defined luxury items like foreign liquor, consumer electronics and high-end vehicles are easily shipped across the PRC-DPRK border. More generally, certain export-controlled items can be finessed across the border by enterprising individuals with the right connections, whether by way of smuggling, bribery, mislabeled manifests or other "informal" means. Chinese scrutiny of outbound goods continues to be minimal. By contrast, PRC restrictions on grain exports and certain renminbi-denominated banking transactions with North Korea continue to be more stringently enforced, though their practical impact ought not be overstated. END SUMMARY.

[1](#)2. (C) This cable was coordinated with Embassy Beijing.

[1](#)3. (C) This report draws on private discussions with northeastern Chinese North Korea experts, trade/customs/port officials, businessmen and cross-border shippers in the two years since the passage of UNSCR 1718 in October 2006. It also draws on extensive site visits during the same period to the PRC-DPRK borderlands, including, most recently, to Dandong (December 29) and Jilin Province's Yanbian Korean Autonomous Prefecture (December 15-18).

PRC UNSCR 1718 ENFORCEMENT: THE PARTY LINE VS. REALITY

[1](#)4. (C) In official meetings since October 2006, a succession of northeastern Chinese political and trade officials claimed to be "strictly enforcing" UNSCR 1718, though they refused to disclose any details. Liaoning and Jilin authorities have denied all of Post's formal requests to discuss enforcement of UNSCR 1718 in the PRC-DPRK border region.

15. (C) Some officials have proven more forthcoming privately. YANG Wenjia (PROTECT), Chief of the Foreign Trade Administration Section of the Foreign Trade and Economic Cooperation Bureau in the strategic PRC-DPRK trade thoroughfare of Dandong, told us informally December 29 that the PRC maintains "strict" DPRK-specific export controls on arms, drugs and WMD precursors. Yang said he was aware of UNSCR 1718's luxury-goods provisions (as well as U.S.-defined luxury items), but explained that Dandong is not enforcing a luxury-goods ban on North Korea because Beijing has not defined "luxury goods." By this logic, asserted Yang, cross-border trade in Dandong has not been subject to UNSCR 1718 luxury-goods prohibitions. This is why Yang and other border officials claim UNSCR 1718 has had minimal impact on PRC-DPRK trade levels since 2006 (see, for instance, ref A).

16. (C) Officials in Jilin Province--which, like Liaoning, also shares a long trading frontier with North Korea--offered similar private explanations. Well-placed officials in Yanji and Tumen told us last year that Beijing had not introduced new restrictions at PRC-DPRK ports in the province for the purpose of enforcing UNSCR 1718 (ref B). Awareness of UNSCR 1718's luxury-goods provisions also seems to be poor in certain remote PRC-DPRK border areas. During a private dinner in Changbai last year, for instance, a senior administrator at the PRC land port opposite the DPRK's Hyesan expressed surprise that the U.S. had formulated a list of prohibited luxury goods (ref A).

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17. (C) PRC-DPRK business contacts continue to report that North Koreans have little difficulty in procuring (U.S.-defined) luxury goods in northeast China. LIU Chensheng (PROTECT), a Shenyang-based businessman who regularly hosts official North Korean delegations in northeast China, told us in late 2006 that many of his North Korean guests here were able to purchase and easily ship home laptops, clothing and MP3 players (ref C). The same holds true today, Liu tells us in late 2008. In Dandong on December 29, ZHANG Zhaoliang (PROTECT), General Manager of the PRC-DPRK trade/shipping consultancy Tiger Eye, related that (U.S.-prohibited) items like MP3/DVD players and top-shelf foreign liquor can be shipped into North Korea via Dandong with ease. The same appears to hold true for luxury vehicles, also proscribed by the U.S., European Union and others pursuant to UNSCR 1718. During a visit to the bustling Dandong Land Port on the morning of December 29, Poloff and Pol/Econ Chief at approximately 1130 observed a late-model Lexus SUV with no license plates idling in the bonded warehouse within the port enclosure; the vehicle appeared to be readying to queue to cross into Sinuiju. A few meters away behind the warehouse (but within the port enclosure) two men hurriedly poured gasoline into the tank of a used Mercedes Benz sedan, parked next to another late-model Lexus SUV--both without license plates and apparently imminently bound for Sinuiju.

18. (C) Extensive site visits to most PRC-DPRK border ports since October 2006 reveal only minimal PRC scrutiny of inbound and outbound goods, particularly at the Dandong Land Port, through which over half of all official PRC-DPRK trade flows. Last year, Dandong-based shippers claimed to be experiencing no major slowdowns stemming from reported PRC enforcement of UNSCR 1718. Tiger Eye's Zhang Zhaoliang reports the same holds true in late 2008. Zhang noted that he and his contract shipping partners are able to clear DPRK-bound land, rail and sea shipments through customs, as well as commodity-inspections and quarantine (CIQ), in one day. At the Dandong Land Port on December 29, Poloff between 1000 and 1050 observed PRC port officials briefly peer into the holds of most (and the cabs of some) incoming DPRK container trucks; between 1055 and 1130, Sinuiju-bound PRC trucks--many of whose

containers had been pre-cleared and sealed before arriving--received little or no scrutiny. We have found inspections in the smaller, lower-volume land ports of Jilin Province to be even less rigorous.

¶9. (C) Post is unable to offer a firsthand assessment of PRC scrutiny of goods shipped via PRC-DPRK commercial air, sea and rail ports. The Dandong Foreign Trade Bureau's Yang Wenjia noted that the majority of PRC-DPRK trade transiting Dandong this year continues to ship via truck, in part because of small shipment volumes and new PRC restrictions on railcars entering North Korea (see ref D). Tiger Eye's Zhang Zhaoliang noted that PRC inspections of his rail and sea shipments are minimal, usually take place at a bonded warehouse and involve customs agents quickly glancing at the loaded shipment and the CIQ manifest. Zhang suggested scrutiny is more lax for maritime shipments (he loads his DPRK-bound maritime cargo directly onto Nampo-based North Korean ships docking at Dalian Port each week). Farther north in Jilin Province's Yanbian Prefecture, Western contacts recently shipping goods to Rajin-Sonbong via China's busy Quanne Land Port reported minimal PRC inspections there, too.

¶10. (C) Regulations notwithstanding, most PRC goods--luxury or otherwise--are shippable across the PRC-DPRK border by any enterprising individual with the right connections, whether by way of smuggling, mislabeling manifests or other "informal" means. Post over the past two years has documented ongoing cross-border smuggling in the Dandong area; much is small-scale, though some is larger in volume and involves the North Korean military. Tiger Eye's Zhang Zhaoliang noted that while the PRC strongly controls the export of prohibited items like arms and drugs, less-sensitive "problematic" items (e.g., certain types of tobacco) can be finessed across the border. Zhang typically provides prospective manifests to friends in Dandong/Dalian Customs and CIQ on an informal basis; he can then make alternative arrangements for problematic items he is tipped off to in advance. Alternative procedures, Zhang

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said, include smuggling; bribing port officials; mislabeling manifests (possible because of lax inspections); and tucking problematic items into separate shipments. These "alternative" measures, however, can increase client costs by up to 100 percent, Zhao explained.

¶11. (C) On U.S.-defined luxury goods like liquor, Zhang noted that much of the foreign alcohol entering North Korea of late is low-quality/counterfeit. Real luxury foreign liquor--affordable only by "seniorelites"--is being procured by "large" North Korean trading firms, often using PRC partners to affix fake labels in order to ease customs duties, he explained. More generally, Zhang underscored that PRC export controls on a given item can usually be skirted; from a Chinese shipper's perspective, much more difficult is securing the necessary permits from the North Korean side, he said.

PRC LUXURY-GOODS ENFORCEMENT IN PERSPECTIVE

¶12. (C) The PRC's grain-export restrictions this year offer a useful counterpoint to its enforcement of UNSCR 1718's luxury-goods provisions. Unlike with luxury goods, the 2008 PRC's grain-export restrictions have been clear, publicized and more stringently enforced, according to contacts (see, for instance, ref E). Among others, Yanbian-based NGO contacts with food-aid operations across the border have been especially hard hit (see, for instance, ref F). The Dandong Foreign Trade Bureau's Yang Wenjia noted December 29 that he had not received any indication from provincial authorities that any loosening on this front is in the offing for 2009. Nevertheless,

grain smuggling continues, though the scope is unclear. Tiger Eye's Zhang Zhaoliang, for instance, claimed smuggling up to "several hundred tons" of grain into North Korea is possible if shipped by sea and folded into a large, otherwise legitimate shipment.

¶13. (C) Another counterpoint: PRC restrictions on remittances and other renminbi-denominated financial transactions with North Korea also remain in place, according to PRC-DPRK business contacts in Liaoning and Jilin provinces. Despite new Chinese regulations sanctioning the use of the RMB for PRC-DPRK trade settlement, Chinese banks are still not authorized to process PRC-DPRK trade transactions. Consequently, Chinese businessmen/traders and their cross-border contacts continue to use U.S. dollars and Euros--often in cash--to settle their transactions because Chinese banks will not process the transactions, said trade facilitator Liu Chensheng in Shenyang on December 11; ZHU Yilong (PROTECT), the Tumen-based General Manager of the Yanbian Haihua Import and Export Company, a major cross-border player in Jilin, on December 16; and Dandong trade official Yang Wenjia on December 29. Contacts at Bank of China's Shenyang headquarters told our Pol FSN December 29 that the DPRK-specific restrictions remain in place for Bank of China branches nationwide. Most PRC-DPRK trade transactions, however, are not handled in banking channels, so the practical import here ought not be overstated.

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